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Executive Order Presented to Bring '04 Budget into Balance

LANSING – On behalf of Governor Jennifer M. Granholm, State Budget Director Mary A. Lannoye today presented Executive Order 2003-23 to a joint session of the House and Senate Appropriations Committees in order to balance the fiscal year 2004 budget. The recommended plan will cure the shortfall in the state's General Fund budget of \$483.6 million.

Though the final agreement – which reflects a majority of the Governor's original proposal – has a large portion of reductions in state agency spending, Governor Granholm and Director Lannoye pointed out that universities and local governments must still shoulder some of the budget balancing burden.

"While no one takes pleasure in making these spending reductions, I believe that this Executive Order preserves the social safety net and the essential state services that matter most to Michigan families," said Governor Granholm. "These are challenging economic times and the bottom line is that we must continue to hold the line on spending while safeguarding the programs that matter most to the future of our state."

While Executive Order 2003-23 closes the general fund shortfall, Governor Granholm and the Senate Majority Leader have reached an agreement in principle that would minimize the reductions in the School Aid Fund. The agreement would pause the 0.1 percent reduction in the state's income tax, scheduled for January, for six months. As suggested by the Governor, the bulk of the savings recognized through the six-month pause will be earmarked for K-12 education, but will be also used to offset the above reductions to higher education and revenue sharing. Under the terms of the agreement, of the estimated \$77 million that the state will realize as a result of the six-month pause, \$45.5 million will be dedicated to the School Aid fund. It is estimated that this overall solution will drop the proration from \$196 per pupil to approximately \$90 - \$100 per pupil.

Governor Granholm and Director Lannoye acknowledged that while these general fund reductions represent tough decisions in a challenging economic time, they were extremely proud of the programs they were able to preserve. Initiatives that were

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preserved from reductions include: funding for Medicaid and mental health; the Cooperative Extension Program; the Agriculture Experiment Station; and funding for the Detroit Medical Center.

Some items contained in the reduction strategy include:

- \$82.5 million in general fund administrative savings for Executive Branch agencies, including \$18.9 million from the Department of Corrections;
- a 5% reduction in spending to universities (\$73.1 million) and community colleges (\$12.4 million) with a 3% restoration if they agree to hold any tuition increases to the rate of inflation;
- a 5% reduction in state revenue sharing dollars which totals \$70.5 million;
- a shift in the final fiscal year 2004 Merit Scholarship payment into the next fiscal year that will save the state approximately \$63 million while continuing scholarships to eligible students; and
- administrative savings in both the Judiciary and the Legislative branches which equal \$1.1 million and \$1.2 million, respectively (a negative supplemental must be passed by the legislature for this to occur).

After approval of Executive Order 2003-23, state general fund spending will have been reduced by \$1.2 billion since Governor Granholm took office.

“It is important to note that well over half of this general fund shortfall will be made through spending reductions,” said Director Lannoye. “That should help us tremendously going into the 2005 fiscal year.”

Also presented to the joint session of the House and Senate Appropriations Committees today were supplemental appropriations recommendations for both fiscal years 2003 and 2004. The 2003 supplemental includes a recommendation to transfer funds out of the Medicaid Benefits Trust fund to cover shortfalls in the Medicaid program last year and addresses a potential shortfall in the Merit Award program. The 2004 general fund supplemental includes \$100 million for the Medicaid program; tuition restraint language for universities and community colleges; and \$8 million for increased tax enforcement efforts in the Department of Treasury. Both bills require approval of the House and Senate.

Under state law, once an Executive Order is presented, the appropriations committees have 10 days to either approve or disapprove by a majority vote (without amendment) the reductions contained within the order.

A copy of the Executive Order, this release, and related material are available on the state's Web site: www.michigan.gov/budget.

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